

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Item 17

Agenda ID 13482

ENERGY DIVISION

RESOLUTION E-4700(Rev.1)

December 18, 2014

R E S O L U T I O N

Resolution E-4700. Southern California Edison (SCE) is requesting approval for program year 2011, 2012, and partial 2013 energy efficiency incentive awards.

PROPOSED OUTCOME:

- Reject SCE's request for payment of the \$5,005,528 holdback on 2011 shareholder incentives at this time. This payment will be held back until the resolution of the Motion for Clarification currently under consideration in A.12-07-001.
- Hold back \$1,239,986 of 2012 shareholder incentive awards until the Motion for Clarification is resolved in A.12-07-001.
- Award the remainder of SCE's energy efficiency shareholder incentives for program year 2012 as calculated by Commission staff.
- Award SCE's energy efficiency shareholder incentives for program year 2013 as calculated by Commission staff.

SAFETY CONSIDERATIONS:

- This Resolution approves shareholder incentive awards for SCE and thus is not expected to have an impact on public safety.

ESTIMATED COST:

- This Resolution approves energy efficiency shareholder incentives in the amount of \$21,610,499 for the following program years:
 - 2011: No award at this time
 - 2012: \$10,832,847
 - 2013: \$10,777,652

By Advice Letter 3106-E filed on September 25, 2014.

SUMMARY

This Resolution addresses Southern California Edison (SCE) Advice Letter 3106-E seeking approval of program year 2011, 2012, and 2013 energy efficiency incentive awards in compliance with D.12-12-032 and D.13-09-023. This resolution rejects SCE's request for 2011 shareholder incentive awards at this time and modifies SCE's requested 2012 and 2013 shareholder incentive awards, as calculated herein.

BACKGROUND

2010-12 Incentive Mechanism

The California Public Utilities Commission (CPUC) adopted a shareholder incentive mechanism for energy efficiency programs beginning with the 2006-08 portfolio to motivate IOU management to pursue energy efficiency as a core business strategy. Significant controversy over the 2006-08 incentive mechanism, however, caused the CPUC to reconsider the incentive mechanism structure. The Commission opened a proceeding (R.12-01-005) to consider reforms to the original mechanism. R.12-01-005 was split to address an incentive policy for the 2010-12 cycle separate from an incentive policy for the 2013-14 cycle and beyond.

As the 2010-12 cycle was drawing to a close, the Commission had not yet completed its deliberations on the appropriate reforms. The Commission recognized that the mechanism reforms would not influence the IOUs' 2010-12 portfolio implementation activities, but found it reasonable to continue to disburse shareholder incentives for energy efficiency to send the proper investment signal to the market place and affirm that state's commitment to energy efficiency.¹ On December 20, 2012, the CPUC adopted Decision (D.) 12-12-032, which implements a simplified shareholder mechanism for the 2010-12 portfolio that consists of a management fee equal to 5% of audited annual utility programmatic expenditures, plus up to 1% for ex ante review performance (all excluding evaluation, measurement, and verification or EM&V costs). Ex ante review performance was scored using a set of 11 metrics covering the following four categories:

¹ D.12-12-023 at page 43.

- Category 1: IOUs' efforts to implement the Commission's ex ante review process within their organizations
- Category 2: Level of due diligence the IOUs applied to their ex ante activities
- Category 3: Progress toward ex ante activity that is more self-policing
- Category 4: Efforts to implement Commission adopted policy regarding the use of the Database of Energy Efficient Resources (DEER)

Each IOUs' score for the ex ante process conformance was directly translated to the performance bonus (i.e., the score was equal to the proportion of the 1% performance bonus awarded to each IOU). In the Decision, the CPUC adopted a score of 56/100 to determine the performance bonus earnings rate for SCE for the 2010-12 cycle.

The IOUs' incentive award earnings rates for the 2010-12 program cycle were the combination of the performance scores and the management fee. SCE's adopted earnings rate for the 2010-12 cycle is 5.56%.

Per D.12-12-032, the IOUs will rely on public versions of the CPUC Utility, Audit, Finance, and Compliance Branch (UAFCB or Audits Branch) reports to determine the actual expenditures to calculate their respective incentive awards. The final UAFCB report for SCE's 2012 program activities was made public August 26, 2014; the service list was notified on the same day.² D.12-12-032 directs SCE to file a Tier 3 Advice Letter seeking incentive awards for 2012 program activities using the adopted earnings rates and their verified expenditure amounts.

² Financial, Management, and Regulatory Compliance Examination Reports for Energy Efficiency Programs available at:
http://www.cpuc.ca.gov/PUC/Water/Available+Documents/Downloadable+Reports/Utility_Audit_Finance_and_Compliance_Reports.htm

Resolution E-4633 on 2011 Shareholder Incentives

On December 19, 2013, the Commission approved resolution E-4633³ to award program year 2011 energy efficiency incentive awards. The Resolution applied a holdback of approximately \$5 million (MM) on 2011 shareholder incentives pending the resolution of inaccurate reporting practices identified in UAFCB's 2011 audit of SCE's energy efficiency program expenditures.

SCE Motion for Clarification

On May 19, 2014, SCE filed a Motion for Clarification under A.12-07-001 to "seek clarification on how costs associated with energy efficiency fixed price contracts (also known and referenced herein as performance-based or pay-for-performance contracts) are to be reported for accounting purposes."⁴ The scope of A.12-07-001 was subsequently amended to include "the proper accounting treatment in 2011 for SCE's third-party contracts, and also how to account for third-party contracts from 2015 onward for all IOUs."⁵ In the Motion for Clarification, SCE has asked the Commission to address the following issues:

1. 2011 UAFCB audit finding that \$24.8MM in direct implementation contracting costs were incorrectly allocated;
2. The \$5MM holdback on 2011 shareholder incentives applied in Resolution E-4633;
3. Future UAFCB audits that are likely to raise the same concerns regarding cost allocation practices for fixed price contracts; and

³ Resolution E-4633 regarding Southern California Edison's request for program year 2011 energy efficiency awards in compliance with Ordering Paragraph 8 of D.12-12-032, dated December 19, 2013, issued December 31, 2014, available online at <http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M084/K558/84558136.PDF>.

⁴ Southern California Edison Company's Motion for Clarification pursuant to Ordering Paragraph #49 of D.12-11-015, dated May 19, 2014, available online at: <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M094/K268/94268786.PDF>.

⁵ Corrected Amended Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge RE Southern California Edison Company's "Motion for Clarification pursuant to Ordering Paragraph Number 49 of D.12-11-015," dated October 29, 2014, available at <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M124/K560/124560749.PDF>.

4. The risk of disrupting energy efficiency incentive awards for 2012, 2013, and 2014.⁶

2013-14 Incentives – ESPI Mechanism

The Efficiency Savings and Performance Incentive (ESPI) mechanism was adopted by the Commission on September 5, 2013, in D.13-09-023. The ESPI mechanism is a multi-component incentive structure intended to motivate IOUs to invest not only in energy efficiency savings (i.e., resource programs), but also in non-resource programs where energy efficiency is marketed and promoted but energy savings are not quantified at this time (e.g., workforce, education, and training and marketing, education, and outreach). The ESPI's four components are:

1. Component 1: A performance award for energy savings of up to 9% of the resource program⁷ budget (excluding codes and standards program budgets),
2. Component 2: A performance award for ex ante review activities of up to 3% of resource program budget (excluding codes and standards program budgets),
3. Component 3: A management fee for codes and standards programs of up to 12% of codes and standards program budgets, and
4. Component 4: A management fee for non-resource⁸ programs of up to 3% of non-resource program budgets.

⁶ Southern California Edison Company's Motion for Clarification pursuant to Ordering Paragraph #49 of D.12-11-015, dated May 19, 2014, available online at: <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M094/K268/94268786.PDF>.

⁷ A resource program is defined as an energy efficiency program that is intended to achieve and report quantified energy savings.

⁸ A non-resource program is defined as an energy efficiency program where energy savings are not directly attributed but the program supports the energy efficiency portfolio through activities such as marketing or improved access to training and education.

Component 1

The energy savings performance award is split between ex ante (i.e., estimated savings pre-implementation) and ex post (i.e., evaluated savings post implementation) savings values. For the 2013-14 cycle, ex post savings values will apply to custom measures and the deemed measures on the “ESPI Uncertain List” proposed in Attachment 3 of D.13-09-023 and finalized by Commission staff. The final 2013-14 ESPI Uncertain List is posted to the CPUC’s Shareholder Incentive Mechanism website.⁹ In accordance with D.13-09-023, the IOUs are to file for incentive payments for ex ante savings in the year following the program year (i.e., in 2014 for program year 2013) and for ex post savings two years following the program year (i.e., in 2015 for program year 2013). This is to allow time to complete EM&V activities for measures on the ESPI Uncertain List.

For all energy savings, the incentive award is calculated using the statewide earnings rates adopted in D.13-09-023. The use of statewide earnings rates allows each unit of energy saved to earn an incentive award. The adopted statewide earnings rates are:

- Electricity: \$2,525/GWh
- Peak Demand: \$6,200/MW-Yr
- Natural Gas: \$21,331/MMth

Component 2

The ex ante performance award adopted in D.13-09-023, bases the awards to the IOUs on their respective ex ante review activities in accordance with a set of 10 metrics that generally cover four common themes:

1. Timeliness in adopting policies (metrics 1a, 1b, and 2)
2. Quality of submittals (metrics 3, 5, 6a, 6b, and 7)

⁹ Shareholder Incentive Mechanism website available at:

<http://www.cpuc.ca.gov/PUC/energy/Energy+Efficiency/Shareholder+Incentive+Mechanism.htm>

3. Consideration of existing DEER guidance and previous feedback in the development of workpapers and custom project deliverables (metrics 8, 9, and 10)
4. Collaboration with Commission staff/Proactiveness (metrics 1a and 4)¹⁰

For 2013, each IOU was assessed based on the metrics adopted in D.13-09-023. In accordance with the decision, Commission staff first developed a preliminary qualitative assessment to provide the IOUs interim feedback on their respective ex ante activities. The interim feedback was delivered to the IOUs in December 2013. Commission staff then developed final ex ante performance scores for each IOU that were delivered to the IOUs and posted to deeresources.com on March 28, 2014.¹¹ The final score for SCE is 65.5/100.

D.13-09-023 prescribes that the IOUs' incentive award for the ex ante review component of the ESPI is the product of the final score and the earnings cap for the component.

Components 3 and 4

The management fees for codes and standards programs and non-resource programs are calculated as a percentage of the IOUs' program expenditures, less administrative expenditures, for each program type.

Incentive Earnings Cap Calculations

The incentive earnings caps for each component and each IOU were adopted in D.13-09-023 as follows:

¹⁰ *ESPI Ex Ante Review Metrics – Overlapping Metric and Actions to Improve Scores*; memo from Katie Wu, Commission staff, to all Investor Owned Utilities, dated February 3, 2014.

¹¹ ESPI – EAR Performance Scoring website available at:
<http://deeresources.com/index.php/espi-ear-performance-scoring>

Table 1: Award Caps by Component (in millions)

Component	Cap	SCE Cap Value
Energy savings performance award	9% of resource program budget (minus C&S)	\$ 40.9
Ex ante review performance award	3% of resource program budget (minus C&S)	\$13.6
Codes & Standards (C&S) program management fee	12% of C&S program budget	\$ 1.16
Non-resource program management fee	3% of non-resource program budget	\$ 2.7
Total Cap Value	11% of EE portfolio budget	\$ 58.5

Per D.13-09-023, the IOUs are to rely on public versions of the CPUC UAFCB reports to determine the actual expenditures to calculate their respective incentive awards. The UAFCB reports for 2013, however, will not be complete until some time in 2015. As such, Commission staff directed the IOUs to calculate the 2013 awards using their respective reported data, and any differences between reported and verified expenditures will be trued up in the advice letter filing for the second installment of 2013 payments made in 2015.¹² This second installment is built into the ESPI mechanism to provide sufficient time to obtain EM&V results required to calculate shareholder incentives for the ex post savings portion of the savings incentive for custom projects and deemed measures on the measure uncertainty list, and to true up any differences in ex ante deemed savings for installed measure “counts” based on EM&V results.

The staff-issued memo describing this process is included in Attachment 1 to this Resolution. In accordance with D.13-09-023 and the staff-issued memo, SCE filed its Advice Letter for 2013 energy efficiency incentive awards for the following:

¹² *Additional Detail on Implementation of the Efficiency Savings and Performance Incentive (ESPI) Mechanism*; memo from Katie Wu, Commission staff, to all parties in R.13-11-005 and R.12-01-005; sent June 9, 2014.

- Energy savings with ex ante parameter estimates: Equal to the utility's net lifecycle reported savings and installation rates multiplied by the adopted earnings rates coefficients, determined in accordance with Attachment 1 of D.13-09-023. Only savings from deemed measures not included on the ESPI Uncertain List are included in this calculation.
- Ex ante review performance: Equal to 3% of the utility's reported expenditures on resource programs (excluding administrative costs) during the previous program year multiplied by the utility's ex ante review score determined in accordance with Attachment 5 of D.13-09-023.
- Codes and standards advocacy management fee: Equal to 12% of the utility's reported expenditures on codes and standards advocacy during the previous program year.
- Non-resource management fee: Equal to 3% of the utility's reported expenditures on non-resource programs during the previous program year

NOTICE

Notice of AL 3106-E was made by publication in the Commission's Daily Calendar. SCE states that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

PROTESTS

Advice Letter AL 3106-E was protested.

SCE's Advice Letter AL 3106-E was protested by the Office of Ratepayer Advocates (ORA). The protest was sent to the Energy Division Tariffs Unit on October 15, 2014 within the protest period. It was, however, sent to SCE on October 16, 2014, after the protest period. Energy Division elected to consider the protest and informed SCE that the protest would be considered on October 22, 2014.

In its protest to AL 3106-E, ORA recommends the Commission withhold from awarding shareholder incentives for 2011, 2012, and 2013 until the necessary audit reports for those program years are completed and remedies to audit findings are implemented. More specifically, ORA recommends that the Commission wait for the outcome of a second audit on SCE's 2011 expenditures

and the Motion for Clarification prior to deciding whether or not to award the \$5,005,528 holdback on 2011 shareholder incentives. Additionally, ORA recommends a second audit of SCE's 2012 expenditures prior to awarding any shareholder incentives for 2012. Finally, ORA recommends the Commission delay any shareholder incentives for program year 2013 until the UAFCB audit is complete (some time in 2015) and SCE has rectified any errors and discrepancies.¹³

SCE responded to the protest of ORA on October 22, 2014. In SCE's reply to ORA's protest, SCE asserts that ORA's protest is "without merit and should be disregarded." SCE considers ORA's protest to be rooted in its "lack of enthusiasm" for energy efficiency shareholder incentives. SCE notes that the UAFCB final audit did not comment on the \$5 million holdback from 2011 shareholder incentives nor did it recommend additional audits on 2012 expenditures. SCE also notes that it followed the same process for filing for 2013 ESPI awards as the other utilities, whose advice letters were not protested.¹⁴

Staff's response to ORA's protest is included at the end of the Discussion section.

DISCUSSION

This resolution finds it premature to award shareholder incentives for the holdback for program year 2011 and the portion of 2012 shareholder awards related to fixed price contracts. This issue is explained in further detail below. Additionally, this resolution adjusts the 2012 and 2013 shareholder awards, as explained below.

¹³ Protest of the Office of Ratepayer Advocates to SCE Advice Letter (AL) 3106-E on Energy Efficiency Incentive Awards for Program years 2011, 2012, and 2013, dated October 15, 2014.

¹⁴ SCE Reply to Protest of the Office of Ratepayer Advocates to SCE Advice 3106-E – Energy Efficiency Incentive Awards for Program Years 2011, 2012, and 2013, dated October 22, 2014.

SCE Advice Letter 3106-E Requested Awards

SCE requests a total of \$35,439,570 for energy efficiency shareholder incentives for program years 2011, 2012, and 2013. The breakdown of shareholder awards requested is provided in Table 2.

Table 2: Total Requested Shareholder Incentives

Program Year	Requested Award
2011	\$5,005,528
2012	\$16,194,377
2013	\$14,239,665
Total	\$35,439,570

Program Year 2011 Shareholder Incentives

SCE requests the \$5MM holdback from 2011 shareholder incentives that was not authorized in Resolution E-4633. SCE states that the award should be distributed because the final 2012 audit did not make additional recommendations regarding SCE's 2011 shareholder incentive. SCE notes that of the \$30.8MM in potentially misreported expenditures in 2011, \$24.8MM, or 80% of the expenditures, were related to concerns over fixed price contracts, including the use of predetermined cost allocation factors.

The scope of A.12-07-001 was recently amended to include the proper accounting treatment for SCE's third party contracts in 2011 and how to account for third party contracts for all IOUs from 2015 and forward. According to the timeline set in the Amended Scoping Memo, evidentiary hearings will be held on February 17, 2015 and SCE's Motion for Clarification will be resolved some time after that.¹⁵

Given that the use of predetermined cost allocation factors is the subject of SCE's Motion currently before the Commission, this Resolution is not awarding the

¹⁵ Corrected Amended Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge RE Southern California Edison Company's "Motion for Clarification pursuant to Ordering Paragraph Number 49 of D.12-11-015," dated October 29, 2014, available at <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M124/K560/124560749.PDF>.

\$5MM holdback from the 2011 shareholder incentive awards at this time. SCE is directed to request the \$5MM hold back in the advice letter it will file in 2015 for shareholder incentives, if appropriate. In the event that the Motion for Clarification is not resolved by the June 30, 2015 advice letter filing deadline established in D.13-09-023, SCE is directed to request the \$5MM hold back in the advice letter it will file in 2016 for shareholder incentives, if appropriate.

Program Year 2012 Shareholder Incentives

The final audit report for SCE's 2012 energy efficiency expenditures identified a total of \$93.7MM (\$64.9MM actual, \$28.8MM potential) of reporting and recording discrepancies. The discrepancies are related to the inability to verify labor costs, inability to verify cost allocation in contracts, incorrect accruals, fund shifting errors, customer overbilling, inadequate justification for invoice payment, and incorrect information in balancing accounts. The final audit report recommends removing approximately \$10MM from SCE's 2012 expenditures prior to calculating the shareholder incentive for 2012.¹⁶

In AL 3106-E, SCE removes this \$10MM from its total spend and, based on the balance of its portfolio expenditures (minus EM&V), requests \$16.2MM in 2012 shareholder incentives (\$14.6MM for the five percent management fee and \$1.6MM for the ex ante review performance bonus).

Although SCE removed from its incentive calculations the expenditures explicitly recommended for disallowance by UAFCB, Energy Division has concerns with other expenditures described in the audit findings. Table 3 summarizes the issues noted in the audit, the discrepancy size, and the related impact the removal of each would have on SCE's 2012 shareholder incentives.

¹⁶ Financial, Management, Regulatory, and Compliance Examination Report on Southern California Edison Company's (SCE's) Energy Efficiency Program for the Period January 1, 2011 through December 31, 2012, dated August 26, 2014.

Table 3: Summary of Observations in SCE's 2012 Energy Efficiency Audit

Number	Program Area	Issue Summary	Discrepancy Size	Associated Shareholder Incentive
1	Admin/Labor Costs	Unable to verify labor rates and spend	\$3,493,080	\$194,215
2	LGP Admin Costs	Incorrect allocation	\$126,385	\$7,027
3	LGP Admin Costs	Incorrect accrual	\$59,394	\$3,302
4	Third Party Admin Costs	Incorrect allocation	\$675,528	\$37,559
5	Third Party Admin Costs	Incorrect accrual	\$20,239	\$1,125
6	EE Contracts	Inaccurate invoice reported	\$ 500,000	\$27,800
7	EE Contracts	Incorrect allocation	\$21,500,000	\$1,195,400
8	EE Contracts	Incorrect accrual	\$4,357,681	\$242,287
9	EE Contracts	Inadequate substantiation for invoice payment	\$2,434,561	\$135,362
10	EE Contracts	Incorrect allocation	\$ 65,329	\$3,632
11	EE Contracts	Inadequate substantiation for invoice payment	\$ 3,239,657	\$ 180,125
12	OBF	Overbilled customers	\$ 44,784	\$ 2,490
13	MFEER	Incorrect accrual	\$1,589,940	\$ 88,401
14	Fund Shifting	Funds shifted without an advice letter	\$4,800,000	\$266,880
15	Fund Shifting	Incorrect report of a \$29M fund shift	\$29,000,000	\$1,612,400
16	Fund Shifting	Incorrect fund shift report	\$14,800,000	\$822,880
17	Fund Shifting	Incorrect fund shift report	\$2,822,212	\$156,915
18	Fund Shifting	Incorrect fund shift report	\$6,661,492	\$370,379
19	Balancing Accounts	Funds shifted but not noted in balancing account	\$16,000,000	\$889,600
20	Balancing Accounts	Funds shifted but not noted in balancing account; labor costs were estimated	\$16,000,000	\$889,600

Number	Program Area	Issue Summary	Discrepancy Size	Associated Shareholder Incentive
21	Internal Audits	SCE Internal Audits found similar issues noted by UAFCB	N/A	N/A
22	Follow Up	SCE did not strengthen invoice review process or reporting due diligence	N/A	N/A
23	Internal Controls	UAFCB's audit showed non-compliance with many policies	N/A	N/A
Total			\$93,676,436*	\$5,208,410**

* Actual table total is \$113,166,176 since some discrepancies crossed issue areas (e.g., fund shifting errors that resulted in incorrect information in a balancing account).

** \$93,676,436* 5.56% = \$5,208,410

The statuses of these issues can be grouped into the four actions identified in Table 4.

Table 4: Summary of Actions Following Audit Findings and Recommendations

Action	Observation # per Table 3	Related Expenditures	Shareholder Incentive
#1 Removed from SCE's 2012 expenditures for incentive calculation purposes	1, 3, 5, 6 8, 13	\$ 10,020,334	\$ 557,130
#2 Ultimately resolved during review of the draft audit	9, 10, 11	\$ 5,739,547	\$ 319,119
#3 To be resolved through the Motion for Clarification in A.12-07-001	2, 4, 7	\$ 22,301,913	\$ 1,239,986
#4 Outstanding issues to be addressed by SCE via audit recommendations	12, 14-23	\$ 74,128,488*	\$ 4,121,544

* The \$16MM associated with Observations 19 and 20 is only counted once in this total since the Observations reference the same discrepancy.

Given that SCE already removed the \$10MM associated with Action #1 from its 2013 incentive calculation, this Resolution makes no further adjustments to the shareholder incentives associated with the audit observations that fall into that action.

The audit observations associated with Action #2 were ultimately resolved during SCE's review of the draft audit. For observation 10, SCE agreed with the

Audits Branch that the accrual was incorrect and indicated that it will correct the costs associated with the invoice. For observations 9 and 11, SCE was able to find documentation to justify the invoice payments. Staff considers SCE's failure to provide supporting documentation for observations 9 and 11 at the time of the auditor's original request to be highly disconcerting. The audit branch spent substantial time resolving these observations due to delays in providing supporting documentation. Because the observations were ultimately resolved, however, this Resolution does not modify the approximately \$319,000 of shareholder incentives associated with these expenditures.

Observations 2, 4, and 7 (Action #3) are related to the use of predetermined cost allocation factors for tracking contract costs. As previously noted, the use of predetermined cost allocation factors is currently under consideration in A.12-07-001 in response to SCE's Motion for Clarification filed in May 2014. Since this issue is currently before the Commission, this Resolution holds back the \$1.2MM in shareholder incentive awards associated with these observations until the Motion for Clarification is resolved in 2015. SCE is directed to request this \$1.2MM holdback in the advice letter it will file in 2015 for energy efficiency shareholder incentives, if appropriate. In the event that the Motion for Clarification is not resolved by the June 30, 2015 advice letter filing deadline established in D.13-09-023, SCE is directed to request the \$1.2MM hold back in the advice letter it will file in 2016 for shareholder incentives, if appropriate.

Regarding Action #4, the audit recommendations in response to the associated observations direct SCE to exercise greater due diligence in complying with CPUC policies and directives and direct Energy Division to provide guidance to the utilities on where and how to reflect prior corrections to reports. In the final 2012 audit, UAFCB directed SCE to provide UAFCB a copy of its revised internal controls by November 24, 2014 and staff expects the revised internal controls to be implemented prospectively for future program years.

Unfortunately, the issue remains that in 2012, SCE's fund shifting reports and balancing account data contained incorrect information. Staff finds that it would be inappropriate to award shareholder incentives for these expenditures. As noted in Resolution E-4633, the shareholder incentive mechanism is a means to award utilities for excellence in implementing their respective energy efficiency portfolios. Given that UAFCB found \$74MM worth of reporting discrepancies within fund shifting reports and balancing account data, staff does not consider SCE's implementation of the 2012 energy efficiency portfolio to be "excellent" in

these areas. As such, the \$4.1MM of shareholder incentives associated with these expenditures is denied.

In total, SCE is awarded \$5,361,530 less than the requested amount for 2012 shareholder incentives at this time; however, \$1,239,986 of the deduction may be awarded in a future resolution depending on the outcome of the Motion for Clarification under consideration in A.12-07-001.

Program Year 2013 Shareholder Incentives

In reviewing the 2013 incentive awards across all IOUs, Commission staff found inconsistencies between the expenditure and savings values filed in the IOUs' advice letters and the data submitted in their quarterly and monthly reports.¹⁷ Monthly reports are available publicly via the CPUC's California Energy Efficiency Statistics website (<http://eestats.cpuc.ca.gov/Views/Documents.aspx>). Quarterly reports contain some customer confidential data and, therefore, are not publicly available at this time. Data in the quarterly reports contain the same data as monthly reports but in a more detailed format and are presumably sourced from the same utility databases as the monthly reports.

Given the discrepancies between the quarterly reports and the utility-filed expenditures in the advice letters, and without the benefit of the final 2013 UAFCB audit to assist staff in reconciling them, the initial payments awarded in this Resolution for the expenditure-based components of the ESPI mechanism rely on the lower value between the two sources of expenditure-related data (the quarterly reports or the utility-filed expenditures). As stated in the Background section, the utilities' expenditures will be trued up with the UAFCB audit results when the audits are completed in 2015, and any adjustments to the expenditure-based components of the 2013 program year ESPI mechanism will be made in the 2015 ESPI resolution.

¹⁷ Appendix D of the Energy Efficiency Policy Manual (Version 5) describes program administrators' reporting requirements. Program administrators are required to submit monthly reports on expenditures and program-level savings and quarterly reports on budgets and expenditure caps. Quarterly reports also contain measure level energy savings data.

Each of the IOUs' shareholder incentive advice letters categorized resource and non-resource program expenditures somewhat differently. The list of programs and associated expenditures categorized as "resource" or "non-resource" used for calculations in this Resolution is included as Attachment 2. Staff followed the same categorization that SCE filed in its advice letter AL 3106-E because SCE categorized each program as either resource or non-resource, depending on how it is implemented in the portfolio. Staff does note, however, that the resource versus non-resource program categorization in AL 3106-E differs from the categorization used in D.13-09-023.

For the energy savings component of the ESPI, which will not be subject to a UAFCB audit, given that the CPUC data on file are comprised of utility-filed reports that have been reviewed by Commission staff, staff relied on the CPUC data to verify SCE savings claims. As such, this Resolution modifies the requested 2013 awards, where appropriate, to be consistent with the filed and reviewed quarterly report data.

Commission staff recognizes that the ESPI mechanism is new and that policy improvements may be warranted to facilitate the advice letter filing and review in the future, specifically with regard to reported versus filed data and the resource versus non-resource program expenditures. Staff recommends that prior to next year's ESPI advice letter filing, Commission staff meet with the IOUs, including SCE, to discuss the data sources to use in future advice letter filings and to develop a resource versus non-resource expenditure categorization approach that is consistent with the intent of the ESPI decision.

SCE requests a total of \$14.2MM for the initial 2013 award. In accordance with D.13-09-023 and the staff-issued memo, the award is comprised of four components:

Table 5: SCE Filed 2013 Incentive Award Claim

Award Component	SCE Request
1. Energy savings with ex ante parameter estimates	\$ 10,540,295
2. Ex ante review performance	\$ 3,004,299
3. Codes and standards management fee	\$ 333,645
4. Non-resource program management fee	\$ 361,426
Total	\$ 14,239,665

Component 1: Energy Savings Performance Award

In Energy Division's review of SCE's 3106-E, staff finds SCE's filing to be significantly greater than the data on file with the CPUC. Staff notes that AL 3106-E includes an incentive claim for savings from the Energy Savings Assistance Program (ESAP); the savings from the ESAP are not eligible for shareholder incentives since they are funded through a separate proceeding and were not included in the ESPI decision calculation of savings coefficients (nor were they mentioned anywhere else in the ESPI decision).

Another source of significant difference between the AL and the quarterly reports results from so called "carry over" basic CFLs that the lighting model predicts were placed in storage during the previous portfolio cycle and were put into service during 2013. We recommend that these stored CFLs be addressed in next year's advice letter requesting the second installment of 2013 ESPI payments.

Table 6 summarizes the difference between SCE's claimed savings from AL 3106-E and the data on file with the CPUC. Attachment 3 provides a breakdown of the savings values staff used to calculate SCE's 2013 savings award in this Resolution.

Table 6: Comparison of SCE Filed Energy Savings with ED Central Server Values

	SCE Claimed Value	ED Central Server Value	Difference
GWh	2,568.6	1,827.9	40.5%
MW	654	397.3	64.6%

Beyond identifying differences between the savings filed in SCE's Advice Letter and quarterly report data, staff conducted a high level review of the quarterly energy savings data to validate the energy savings. A summary of the reviewed energy savings values, the details of staff's review, and a link to the review spreadsheet are also provided in Attachment 3.

The following adjustments to SCE's request were made:

1. Addition of a 5% market effects adder, consistent with the Commission's current market effects policy, which neither the quarterly reports nor the Advice Letter filing included in the savings estimate,

2. Removal of all Uncertain Measures from this advice letter filing, and
3. Proper application of the Hard-to-Reach and Emerging Technology net-to-gross (NTG) values.

Staff notes that adjustment 4 (in addition to several other issues not included in this high level review of 2013 ex ante savings estimates) was also included in the memo staff recently provided to program administrators to make corrections in their 2015 portfolio funding compliance filings, as directed by the Commission in Decision D.14-10-046.¹⁸

Overall, this Resolution increases savings to account for market effects attributed to spillover (5% increase for all IOUs) and reduces savings to account for Uncertain Measures that should be included in SCE's 2015 advice letter and incorrect use of hard-to-reach or emerging technology NTG values.

For the NTG adjustment, staff elected to apply three-quarters of the NTG adjustment, rather than the entire adjustment (i.e., all of the changes made to NTG values) as a conservative application of the findings of the high level review conducted, to acknowledge the fact that there may be justifiable reasons why SCE applied hard-to-reach or emerging technology NTG values for measures in programs that our high level review identified as inappropriate. Staff considers it highly unlikely that the number of appropriate uses of this NTG exception could exceed one in four, though, so the 75% application of these adjustments is likely to be liberal (in the sense of the resulting incentive award).

If SCE believes that staff over-corrected NTG values, SCE is directed to provide the requisite supporting documentation, consistent with existing Commission

¹⁸ Specifically, at the direction of the Commission, staff released the "Required Corrections to Measure Level Input Parameters Identified by Commission Staff per D.14-10-046 Ordering Paragraph 16" in relation to the utilities' 2015 energy efficiency filings. The table on page 4 of that document identifies thousands of measure counts for which corrections to the 2015 application filings are needed. Some of these corrections address measure costs, which would not impact the savings estimates used to calculate the ESPI payment, but many other corrections did impact savings parameters (e.g., corrections to NTG, UES, and early retirement values) and would likely apply to 2013 savings values.

policy, for the measures for which SCE believes the higher NTG is warranted in its 2015 advice letter for the second installment of the 2013 program year ESPI payments.

Also during review, staff identified a number of measures for which staff believes SCE is claiming early retirement with incorrect remaining useful life values. Staff did not have time to fully assess the extent of this issue. Moving forward, however, staff intends to perform a more detailed review of the utilities' ex ante data to ensure that early retirement and NTG claims, in particular, are correctly reflected in the data used to verify ESPI awards.

The resulting energy savings component of the ESPI award for SCE is calculated per Table 7 below, for a total reduction of \$3,625,209 from the claimed amount.

Table 7: SCE Energy Savings Performance Award Calculation

Energy Units Saved	Earnings Rate	Total Earnings
1,827.9 GWh	\$2,525/GWh	\$ 4,615,333
397.3 MW-Yr	\$6,200/MW-Yr	\$ 2,462,949
		\$ 7,078,282

Energy Efficiency Program Expenditures

In AL 3106-E, SCE notes the following expenditures that are applicable for three of the four incentive award components:

Table 8: SCE Filed Expenditures

Award Component	Applicable Budget(s)	Expenditures (less administrative costs)
2. Ex ante review performance	All resource programs	\$ 152,890,562
3. Codes and Standards management fee	Codes and standards programs	\$ 2,780,376
4. Non-resource program management fee	Non-resource programs	\$ 12,047,525

SCE's filed expenditures are generally less than the data on file with the CPUC, as noted in Table 9 below.

Table 9: Comparison of Advice Letter and Quarterly Report Expenditures

Program Area	SCE-filed	CPUC data	Difference
Resource programs	\$ 152,890,562	\$ 164,229,772	-6.9%
Codes and Standards programs	\$ 2,780,376	\$ 2,998,532	-7.3%
Non-resource programs	\$ 12,047,525	\$ 12,777,667	-5.7%

The list of resource and non-resource programs, with the reported expenditures, is included as Attachment 2 to this Resolution. Staff followed SCE's categorization of resource and non-resource programs noted in AL 3106-E but still found higher reported expenses than the amounts filed in SCE's AL 3106-E. As noted earlier in this resolution, prior to next year's ESPI advice letter filing, Commission staff will meet with SCE and the other IOUs to discuss the consistency of reported expenditures and expenditures used to file shareholder incentives.

Per the staff-issued memo distributed on June 9, 2014 and included as Attachment 1 to this Resolution, SCE's 2013 expenditures will be trued up once the UAFCB final 2013 audit is complete. For the purposes of this Resolution, staff used SCE's filed expenditures for expenditure-based incentive calculations.

Component 2: Ex Ante Review Performance Award

In accordance with D.13-09-023, SCE is eligible to earn up to three percent of resource program expenditures, less administrative spend, for the ex ante review performance award. As noted above, SCE's final 2013 ex ante performance scores was 65.5/100. The ex ante performance award component for SCE is calculated as:

$$\$152,890,562 * 3\% * 65.5\% = \$3,004,299$$

This is the same amount requested in AL 3106-E.

Component 3: Codes and Standards Program Management Fee

Per D.13-09-023, the codes and standards program management fee is equal to 12% of the codes and standards program expenditures, less administrative spend. As such the codes and standards management fee is calculated as:

$$\text{\$ } 2,780,376 * 12\% = \text{\$ } 333,645$$

This is the same amount requested in AL 3106-E.

Component 4: Non-resource Program Management Fee

Per D.13-09-023, the non-resource program management fee is equal to three percent of non-resource program expenditures, less administrative costs. As such, the non-resource program management fee is calculated as:

$$\text{\$ } 12,047,525 * 3\% = \text{\$ } 361,426$$

This is the same amount requested in AL 3106-E.

Total Awarded Shareholder Incentives

Table 10 summarizes the total awarded shareholder incentives for each program year. In total, \$6.2MM is being held back from 2011 (\$5MM) and 2012 (\$1.2MM) shareholder incentives until the Motion for Clarification is resolved in A.12-07-001 and \$4.1MM of 2012 shareholder incentive awards are rejected due to incorrect data in SCE's fund shifting reports and balancing accounts.

Table 10: SCE Shareholder Incentive Awards

Award Component	Award Amount
2011 Holdback of \$5MM	Not awarded at this time
2012 Management Fee + Ex Ante Review Performance	\$ 10,832,847
2013 Energy Savings (with ex ante parameter estimates)	\$ 7,078,282
2013 Ex Ante Review Performance	\$ 3,004,299
2013 Codes and Standards Management Fee	\$ 333,645
2013 Non-resource Management Fee	\$ 361,426
Total	\$ 21,610,499

Response to ORA Protest

With regard to ORA's protest of SCE's shareholder incentives, staff agrees with ORA's point that it is premature to award the \$5MM holdback on the 2011 awards; however, it should be noted that there is no pending audit on SCE's 2011 expenditures. As noted above, distribution of the \$5MM holdback on 2011 awards will be determined after the Motion for Clarification is resolved in A.12-07-001.

For 2012 awards, staff elects not to recommend a second audit of SCE's 2012 expenditures given that the completed audit covered a substantial portion of SCE's 2012 portfolio. Instead, staff is holding back the \$1.2MM of shareholder incentives associated with fixed price contracts and denying \$4.1MM of shareholder incentives associated with accounting errors and outstanding issues to be addressed by SCE via audit recommendations. Additionally, staff notes that SCE already applied the audit recommendation to remove \$10MM of expenditures prior to calculating the 2012 shareholder incentive. In total, SCE is awarded approximately \$5.4MM less than the requested amount for 2012 shareholder incentives.

Regarding 2013 incentives, staff elects not to wait for the final 2013 audit prior to awarding the initial ESPI payment for 2013 program activities. Staff finds the quarterly and monthly data reported to the CPUC to be adequate to determine initial 2013 ESPI ex ante energy savings payments. Additionally, the audit will only address SCE's expenditures and will not inform any incentive payments related to energy savings. As previously discussed, SCE's 2013 expenditures will be trued up with the final UAFCB audit once it is completed in 2015 and any if overpayment is found, then SCE's final 2013 payment will be reduced per the incentives to be awarded in 2015.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived or reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

On December 4, 2014, SCE filed comments in response to this Resolution. On December 5, 2014, ORA filed comments late in response to this Resolution.

SCE

SCE makes the following recommendations for this Resolution:

1. Award the proposed holdback of approximately \$5MM on 2011 shareholder incentives and \$1.2MM on 2012 shareholder incentives because Amended Scoping Memo for A.12-07-001 address only SCE's accounting practices for fixed price contracts and is not relevant to SCE's shareholder incentive awards.
2. Remove the \$4.1MM reduction on 2012 shareholder incentives because the reduction is arbitrary, inconsistent with the UAFCB 2012 audit, and inconsistent with the Commission's award process for the other utilities.
3. Authorize SCE to work with Commission staff to clarify certain aspects of the \$3.5MM reduction on 2013 energy savings based shareholder incentives. That is, SCE is not contesting the \$3.5MM reduction at this time but would like additional time to review certain reductions in detail and true up any differences in the next advice letter filing.
4. Update the total award to \$31,977,557 to reflect the recommendations.

This Resolution rejects Recommendation #1 and will maintain the \$6.2MM holdback on 2011 and 2012 awards. We disagree with SCE's comment that "UAFCB found that SCE's expenditures associated with the fixed price contracts were appropriately spent."¹⁹ In the final 2012 audit, UAFCB states that the fixed price contract costs "could be misclassified, overstated or understated or may not

¹⁹ Comments of Southern California Edison Company (U 338-E) on Draft Resolution E-4700, page 4.

be applicable.”²⁰ Although fixed price contract expenditures may have been spent in 2012, as noted in Resolution E-4633, Commission staff finds it reasonable to apply a holdback on the incentive award to prevent awarding shareholder incentives for inaccurate reporting practices.²¹

In its comments, SCE points out that the 2012 energy efficiency audit of PG&E’s expenditures found the same issue with the use of cost allocation factors in third party contracts and PG&E did not receive a holdback on shareholder incentives. SCE argues that because PG&E did not have shareholder incentive awards held back in response to the use of pre-determined cost allocation factors, then SCE should be treated the same and awarded the \$6.2MM holdback. Although PG&E did not receive a holdback on shareholder incentives, the fact remains that both PG&E and SCE were identified as failing to demonstrate compliance with the Public Utilities Code and Commission guidelines due to the use of cost allocation factors. “Other utilities do it too” is not a strong argument for dismissing a holdback for a matter before the Commission – though had the 2012 audit of PG&E’s expenditures quantified the amount of expenditures impacted by the use of cost allocation factors, Commission staff would have recommended applying a hold back on PG&E’s expenditures as well.

The deliberations occurring in A.12-07-001 are related to the proper accounting treatment for SCE’s third party contracts and are expected to determine whether SCE’s accounting practices in 2011 and 2012 resulted in the accurate reporting of third party contract expenditures. It would be premature to award SCE shareholder incentives on a portion of expenditures that may not have been accurately accounted and reported. Consequently, we will determine whether to award the \$6.2MM holdback after the Motion for Clarification is resolved.

In recommendation #2, SCE argues that the \$4.1MM reduction in 2012 awards is inconsistent with the audit findings and with the Commission’s treatment of the awards for the other utilities.

²⁰ Financial, Management, Regulatory, and Compliance Examination Report on Southern California Edison Company’s (SCE’s) Energy Efficiency Program for the Period January 1, 2011 through December 31, 2012, dated August 26, 2014, page A-8.

²¹ Resolution E-4633, page 9.

D.12-12-032, directs Commission staff to conduct an audit of utility expenditures and base the incentives on the result of that audit; however, the decision is silent on how staff should handle instances in which the audit identifies errors in program expenditures and accounting practices that do not rise to the level of a disallowance of the expenditures themselves (i.e., are not the result of waste, fraud, or abuse; and incorrect payment to a vendor; an incorrectly entered value in their ledgers that resulted in an incorrectly reported expenditure; etc.), but violate the Public Utilities Code or Commission-adopted policies for portfolio accounting.

D.12-12-032's direction to staff to conduct an audit and adjust the shareholder incentive in response to that audit expresses the Commission's intent to prevent the shareholder incentives from being awarded for portfolio funds spent contrary to Commission rules, which is one of the primary purposes and focuses of the audit. We could also note that there is past precedent for Commission staff to adjust shareholder incentive claims based on staff analysis, going back to the original RRIM adopted in D.07-09-043, which explicitly directs staff to do so.

Regarding SCE's argument that the other utilities' awards were not reduced in a consistent fashion, "other utilities made mistakes too" is not a particularly compelling argument for not applying this reduction. In addition, the scope and scale of the problems in the SCE audit findings are significantly greater, though this reduction should serve to put all utilities on notice that the Commission takes seriously compliance with its portfolio expenditure rules and will apply these types of reductions to the expenditure-based components of the ESPI as appropriate.

We note that SCE incorrectly states that UAFCB did not find the fund shifting and balancing account errors to be material. On page one of the final 2012 audit, UAFCB states "[d]ue to the materiality of the errors found in the samples tested and the lack of supporting documentation, UAFCB cannot provide full assurance to the reasonableness of all of the amounts SCE reported to the Commission in its EEGA reports."²² We also note that SCE's arguments regarding why the

²² Financial, Management, Regulatory, and Compliance Examination Report on Southern California Edison Company's (SCE's) Energy Efficiency Program for the Period January 1, 2011 through December 31, 2012, dated August 26, 2014, page 1.

\$4.1MM should be awarded are not rooted in any defense of SCE's accounting practices that the audit identified as errant or inconsistent with existing rules, but instead rely on procedural grounds.

Based on the discussion above, we maintain the \$4.1MM reduction on 2012 awards.

Regarding Recommendation #3, we do not believe there is merit in continuing to review discrepancies staff identified in the energy savings data.

Commission staff has indicated that a conservative approach was taken in reducing savings values (conservative in the sense that staff believe more reductions would have resulted from a more thorough review). Past experience suggests that detailed discussions regarding energy savings data and the related impact to shareholder incentives are contentious, lengthy, and distract from other more important Commission work. As recounted in the Factual and Policy Background section of D.12-12-032, disagreements over the 2006-09 RRIM awards were deliberated for over three years. We believe the time and resources spent revisiting these savings claims would be better spent working with Commission staff to review the 2014 and 2015 ex ante datasets to reduce the discrepancies in energy savings data submitted by the utilities in the future.

This Resolution does not make any adjustments to the shareholder incentive award in response to SCE's comments.

ORA

ORA supports this Resolution's recommendations to hold back \$6.2MM of 2011 and 2012 shareholder incentives and reject \$4.1MM of 2012 shareholder incentives. ORA recommends an additional holdback of \$3.7MM on 2013 shareholder incentives until the 2013 audit is complete.

ORA states that expenditure true up could be a costly and lengthy process. While an additional holdback on 2013 shareholder incentives would safeguard ratepayers from the risk of overpayment, do not anticipate that the true-up process will be particularly costly or lengthy. Assuming that SCE's 2013 audit is finalized in a timely manner, the true-up process is expected to be a straightforward arithmetic exercise. Given that additional 2013 (ex post savings) and 2014 (ex ante savings, Codes and Standards, non-resource program, and Ex Ante Review Performance) payments will be included in next year's award,

the ESPI will not be haunted by the “clawback” issues faced in the RRIM era. Consequently, this Resolution does not apply an additional holdback on the 2013 shareholder incentives.

FINDINGS

1. Commission Decision D.13-09-023 directs the investor-owned utilities to file an annual Tier 3 Advice Letter to claim shareholder incentive awards.
2. Ordering Paragraph 6 of D.13-09-023 directs the IOUs to consolidate the program year 2012 and 2013 incentive claim requests into a single advice letter in 2014.
3. Resolution E-4633 applies a \$5,005,528 hold back on the 2011 shareholder incentive awards for SCE pending the results of either a more extensive audit of SCE’s 2011 expenditures or the audit of SCE’s 2012 expenditures.
4. The program year 2012 incentive award claims made in SCE 3106-E are technically consistent with the directives of D.12-12-032.
5. The Utility, Audits, Finance, and Compliance Branch (UAFCB) audit of SCE’s 2012 expenditures found \$93,676,436 (\$64,882,075 in actual and \$28,794,361 of potential) of total reporting and recording discrepancies. The audit recommended the removal of \$10,020,334 of expenditures prior to calculation of the shareholder incentive award.
6. Discrepancies noted in the 2012 audit of SCE’s expenditures are related to inability to verify labor costs, cost allocation in contracts, incorrect accruals, fund shifting errors, customer overbilling, inadequate justification for invoice payment, and incorrect information in balancing accounts.
7. Because the issue of predetermined cost allocation factors in fixed price contracts is currently under the consideration of an open proceeding, this Resolution holds back the shareholder incentive award associated with the potential accounting discrepancies related to this issue. This holdback is equal to \$5,005,528 in 2011 shareholder incentives and \$1,239,986 in 2012 shareholder incentives for a total holdback of \$6,245,514. SCE is directed to address this holdback in the advice letter it will file in 2015 for shareholder incentives. In the event that the Motion for Clarification is not resolved by the June 30, 2015 advice letter filing deadline established in D.13-09-023, SCE should request the \$5MM hold back in the advice letter it will file in 2016 for shareholder incentives, if appropriate.

8. In 2012, SCE's fund shifting reports and balancing account data contained incorrect information. Therefore, this Resolution rejects the \$4,121,544 of shareholder incentives that are associated with the audit issues that will SCE has agreed to correct in the future.
9. The UAFCB audit of the IOUs' 2013 energy efficiency program expenditures is not yet complete. As such, on June 9, 2014, Commission staff sent a memo to direct IOUs to file the initial 2013 incentive claims based on utility-reported data. The memo is included as Attachment 1 to this Resolution.
10. The second installation of 2013 incentive awards will reconcile any differences between utility-reported and Commission-audited data. Any adjustments will be offset in the second (PY+2) payment and will not require IOUs to re-state the previous year's earnings.
11. Given that the CPUC data on file are comprised of utility-filed reports, Commission staff relies on the CPUC data to verify and confirm SCE's filings. Attachments 2 and 3 of this Resolution show the program expenditures and savings values, respectively, used to verify the IOUs' advice letter filings. For incentives calculated based on expenditures, staff used SCE's values filed in their advice letters as the cap. The IOUs' expenditures will be trued up with the final 2013 UAFCB energy efficiency audit reports. For incentives calculated based on energy savings, staff used the data available in the Energy Division Central Server to verify incentive claims. Because there is currently no true up method planned for ex ante savings, staff relies on the Energy Division Central Server data which is source from staff-reviewed utility-filed reports.
12. Staff's high level review of the energy savings data result in adjustments to increase savings to account for market effects (5% increase) and to reduce savings to account for Uncertain Measures that should be included in SCE's 2015 advice letters, incorrect application of installation rates, and incorrect use of hard-to-reach or emerging technology NTG values.
13. SCE's initial 2013 incentive claim is generally consistent with the directions of D.13-09-023.
14. SCE's energy savings claims are not supported by the quarterly energy savings data on file with the CPUC. In total, SCE is awarded \$3,462,013 less than what was claimed in AL 3106-E due to the differences in energy savings values.

15. SCE's expenditure claims are less than the data on file with the CPUC. Energy Division used SCE's expenditure data as the cap for incentive awards calculated based on expenditures.
16. The Office of Ratepayer Advocates (ORA) filed a protest to SCE's AL 3106-E. In its protest, ORA recommends the Commission withhold from awarding shareholder incentives for 2011, 2012, and 2013 until the necessary audit reports for those program years are completed and remedies to audit findings are implemented.
17. In SCE's response to ORA's protest, SCE states that ORA's protest is "without merit and should be disregarded."
18. This Resolution agrees with ORA's protest regarding 2011 awards but elects to move forward with modified awards for program years 2012 and 2013.
19. In total, this Resolution awards SCE \$21,610,499 for 2012 and 2013 energy efficiency program activities. SCE may earn up to an additional \$6,245,514 depending on the outcome of SCE's Motion for Clarification in A.12-07-001.
20. In SCE's comments on the Draft Resolution, SCE recommends that this Resolution (a) award the \$6,245,514 holdback on 2011 and 2012, (b) award the \$4,121,544 reduction, (c) authorize SCE to collaborate with Commission staff to clarify the energy savings based shareholder incentive and true up any difference in the next advice letter filing, and (d) update the total award to \$31,977,557 to reflect SCE's recommendations.
21. This Resolution makes no adjustments in response to SCE's comments. The \$6,245,514 holdback is an appropriate safeguard for addressing a matter that is currently before the Commission. The \$4,121,544 reduction is appropriate to prevent awarding shareholder incentives for inaccurate reporting practices. SCE's request to work with Commission staff to clarify the energy-savings related shareholder incentives is denied, and SCE is instead directed to work with Commission staff to review the 2014 and 2015 ex ante datasets to reduce or prevent future energy savings data discrepancies. This Resolution awards SCE a total of \$21,610,499 for 2012 and 2013 energy efficiency shareholder incentives.
22. In ORA's comments on this draft Resolution, ORA supports the \$6,245,514 holdback and \$4,121,544 reduction on SCE's requested 2011 and 2012 shareholder incentives. ORA recommends an additional holdback of \$3,699,370 on 2013 expenditure-based shareholder incentives until the 2013

UAFCB audit is completed given that the true-up process could be lengthy and expensive.

23. We do not anticipate that the true-up process will be particularly costly or lengthy and do not propose any additional expenditure-related hold backs to the 2014 award.

THEREFORE IT IS ORDERED THAT:

1. The request of Southern California Edison (SCE) for energy efficiency shareholder incentives as made in Advice Letter AL 3106-E is modified from the original request. SCE is awarded \$10,832,847 for program year 2012 shareholder incentives. SCE is awarded \$10,777,652 for the initial program year 2013 Efficiency Savings and Performance Incentive (ESPI) award. The \$21,610,499 award can be recovered in SCE's rates through its Base Revenue Requirement Balancing Account for its rates effective in 2015.
2. The \$5,005,528 holdback on 2011 incentives awards is maintained until the Motion for Clarification under consideration in A.12-07-001 is resolved. Additionally, a \$1,239,986 holdback is applied to 2012 incentive awards until the Motion for Clarification is resolved. SCE is directed to request this \$6,245,514 holdback in the advice letter it will file in 2015 for energy efficiency shareholder incentives, if appropriate. In the event that the Motion for Clarification is not resolved by the June 30, 2015 advice letter filing deadline, SCE should request the holdback in the advice letter it will file in 2016 for shareholder incentives, if appropriate.
3. Prior to the next Efficiency Savings and Performance Incentive (ESPI) Advice Letter filing, SCE is directed to meet with Commission staff and the other program administrators to discuss the data sources to be used in the ESPI advice letter filings moving forward and to develop a resource versus non-resource expenditure categorization approach that is consistent with the intent of the ESPI decision.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on December 18, 2014; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

ATTACHMENT 1: STAFF-ISSUED MEMO
PROVIDING GUIDANCE ON ESPI ADVICE
LETTER FILING

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



To: All Parties in R.13-11-005 and R.12-01-005

From: Katie Wu, Energy Division

Date: June 9, 2014

Subject: Additional Detail on Implementation of the Efficiency Savings and Performance Incentive (ESPI) Mechanism

To all parties:

Since adoption of the ESPI, Commission staff has begun implementation of the tasks prescribed in D.13-09-023, the decision adopting the ESPI. Staff is coordinating internally to ensure that the deadlines are met and IOUs have the information needed to ultimately file award claims each June. During the course of these activities, staff found that the annual energy efficiency audit performed by the Commission's Audit Branch would not be complete by June of the year following program implementation. In order to conduct a robust audit, the Commission audit team requires at least nine months to complete an audit.

As such, in order to meet the deadlines set in D.13-09-023 and allow adequate time for IOU EE audits to be complete, the incentive distribution process is described in more detail below. In general, incentive awards in the year following program year (i.e., PY +1) will be calculated using utility-reported information and incentive awards in the year two years after program year (i.e., PY +2) will be calculated based on Commission-verified information. The PY+2 incentive payment will include a true-up to reconcile any differences between utility-reported and Commission-verified information. Program years 2013 and 2014 are referenced below for illustrative purposes; the process will be identical each year unless and until the Commission modifies the ESPI.

1. By June 30 of the year following the program year (e.g., 2014 for 2013 program activities), each utility will file a Tier 3 Advice Letter to Energy Division to request energy efficiency incentive award payments for:

- a. Non-resource management fee: Equal to 3% of the utility's reported expenditures on non-resource programs during the previous program year.
 - b. Codes and standards management fee: Equal to 12% of the utility's reported expenditures on codes and standards programs during the previous program year.
 - c. Ex ante review performance: Equal to 3% of the utility's reported expenditures on resource programs (excluding administrative costs) during the previous program year multiplied by the utility's ex ante review score determined in accordance with Attachment 5 of D.13-09-023.
 - d. Energy savings with ex ante parameter estimates: Equal to the utility's net lifecycle reported savings and installation rates multiplied by the adopted earnings rates coefficients, determined in accordance with Attachment 1 of D.13-09-023. Only savings from deemed measures not included on the ESPI Uncertain List are included in this calculation.
2. By June 30 two years after the program year (e.g., 2015 for PY 2013), each utility will file a Tier 3 Advice Letter to Energy Division to request:
 - a. Incentive awards for energy savings with ex post parameter estimates: Equal to the utility's net lifecycle verified savings and installation rates from two program years ago (e.g., savings subject to ex post verification in 2013 will be awarded in 2015) for deemed measures on the ESPI Uncertain List and custom projects and measures.
 - b. A true-up of award payments distributed the previous year for items a-d in Item 1 above for two years prior (e.g., for PY2013 in the 2015 Advice Letter) based on verified expenditures and measure installation rates. The true-up will reconcile any differences between the utility-reported versus Commission-audited expenditures / Commission-verified measure installation rates.

Publicly available Commission-led audits and EM&V studies will be used to verify expenditures and installation rates, respectively.

- c. Incentive award payments for items a-d listed above for the previous program year (e.g., for PY2014 in the 2015 Advice Letter) based on reported expenditures.

This process is summarized in a table in the attached appendix. Commission staff finds that this incentive distribution process will allow utilities to reliably predict energy efficiency incentive awards while protecting ratepayers from potentially overpaying for energy efficiency incentive awards.

If parties have any questions or concerns regarding this incentive distribution process, please contact Katie Wu at katie.wu@cpuc.ca.gov or 415.703.2452.

APPENDIX: Incentive Distribution Process Summary

Program Year + 1 (uses utility-reported data)	Program Year + 2 (uses Commission-verified data)
Non-resource Management Fee	Energy Savings from custom projects and measures
Codes and Standards Management Fee	Deemed Energy Savings with ex post parameters (i.e., savings from the ESPI Uncertain List measures)
Ex Ante Review Performance Award	True-up of all PY+1 payments using Commission audited expenditures and verified installation rates
Deemed Energy Savings with ex ante parameters	

ATTACHMENT 2: 2013 PROGRAM EXPENDITURES

Attachment 2 to this Resolution is a spreadsheet of the 2013 program expenditures, as reported to the CPUC by the IOUs in their quarterly and monthly reports. The electronic spreadsheet separates costs for each program administrator into different tabs. Columns A and B of each tab note the Program ID number and Program Name, respectively. Columns I and J note the administrative costs, which were subtracted from the total expenditures in Columns O (quarterly reports) and P (monthly reports). Columns S and T show the total expenditures less administrative spend using quarterly reports (Column S) and monthly reports (Column T). Columns Q and R show the differences between the monthly and quarterly reports.

Resource programs are noted in white cells, non-resource programs are highlighted as pink cells, and green cells highlight codes and standards programs. The total resource, non-resource, and codes and standards expenditures are noted in the blue cells in Columns U, V, and W, respectively. The formula bar for each of the blue cells will note which program expenditures were used to calculate the total values.

ATTACHMENT 2: 2013 PROGRAM EXPENDITURES



White cells note resource programs
Pink cells note non-resource programs
Green cells note codes and standards programs
Blue cells note total expenditures less administrative spend

		ProgramCostTable													Quarterly Report		Monthly Report				Quarterly Report		Monthly Report																																																																																																																																																																																																																																																																																																																																																																																																																																			
PA	ProgramID	ProgramName	Savings FirstYear Gross kW	Savings FirstYear Gross kWh	Savings FirstYear Gross Therms	Incentive 13/14 only	total incentive	AdminCosts Overhead And GA	AdminCosts Other	Marketing Outreach	Direct Implementation Activity	Direct Implementation Rebate And Inspection	Incent Rebates User Input Incentive	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total Expenditures	Total 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Resolution E-4700
SCE AL 3106-E/KW1

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December 18, 2014

SCE	SCE-13-SW-003D	Industrial Continuous Energy Improvement Program	NULL	NULL	NULL	\$ -	\$ -	\$ -	30,398	\$ 2,385	\$ 39	\$ 117,028	\$ -	\$ -	\$ -	149,850	\$ 149,850	\$ -	0.0%	\$ 119,452	\$ 119,452			
SCE	SCE-13-SW-004D	Agriculture Continuous Energy Improvement Program	NULL	NULL	NULL	\$ -	\$ -	\$ -	-	\$ -	\$ 355	\$ 19,841	\$ -	\$ -	\$ -	20,197	\$ 20,197	\$ -	0.0%	\$ 20,197	\$ 20,197			
SCE	SCE-13-SW-005A	Lighting Market Transformation Program	NULL	NULL	NULL	\$ -	\$ -	\$ -	13,975	\$ 23,690	\$ -	\$ 110,935	\$ -	\$ -	\$ -	148,600	\$ 148,600	\$ -	0.0%	\$ 134,625	\$ 134,625			
SCE	SCE-13-L-001	Integrated Demand Side Management Pilot for Food Processing	NULL	NULL	NULL	\$ -	\$ -	\$ -	91,514	\$ -	\$ 117,912	\$ 1,810	\$ -	\$ -	\$ -	211,236	\$ 211,236	\$ -	0.0%	\$ 119,722	\$ 119,722			
SCE	SCE-13-SW-009A	Technology Development Support (TRIP)	NULL	NULL	NULL	\$ -	\$ -	\$ -	86,913	\$ 132,342	\$ 3	\$ 1,407,334	\$ -	\$ -	\$ -	1,626,591	\$ 1,515,837	\$ (110,754)	-7.3%	\$ 1,539,679	\$ 1,428,924			
SCE	SCE-13-SW-009B	Technology Assessments	NULL	NULL	NULL	\$ -	\$ -	\$ -	191,076	\$ 10,607	\$ -	\$ 827,272	\$ -	\$ -	\$ -	1,028,955	\$ 1,028,955	\$ -	0.0%	\$ 837,880	\$ 837,880			
SCE	SCE-13-SW-009C	Technology Introduction Support (TRIO)	NULL	NULL	NULL	\$ -	\$ -	\$ -	215,722	\$ 31,717	\$ 150	\$ 511,604	\$ -	\$ 15,097	\$ -	774,290	\$ 885,045	\$ 110,754	12.5%	\$ 558,568	\$ 669,323			
SCE	SCE-13-SW-010A	WE&T Centergies	NULL	NULL	NULL	\$ -	\$ -	\$ -	290,213	\$ 155,073	\$ 109,955	\$ 4,281,669	\$ -	\$ -	\$ -	4,836,911	\$ 4,836,911	\$ -	0.0%	\$ 4,546,697	\$ 4,546,697			
SCE	SCE-13-SW-010C	WE&T Planning	NULL	NULL	NULL	\$ -	\$ -	\$ -	480	\$ 6,587	\$ -	\$ 21,158	\$ -	\$ -	\$ -	28,226	\$ 28,226	\$ -	0.0%	\$ 27,745	\$ 27,745			
SCE	SCE-13-TP-002	Cool Planet	NULL	NULL	NULL	\$ -	\$ -	\$ -	25,584	\$ 49,334	\$ 47,764	\$ 71,909	\$ -	\$ 750	\$ -	195,342	\$ 195,342	\$ -	0.0%	\$ 169,758	\$ 169,758			
SCE	SCE-13-TP-019	Sustainable Communities	NULL	NULL	NULL	\$ -	\$ -	\$ -	125,868	\$ 33,217	\$ 55,343	\$ 305,726	\$ -	\$ 7,088	\$ -	527,241	\$ 527,241	\$ -	0.0%	\$ 401,373	\$ 401,373			
SCE	SCE-13-SW-008A	Building Codes and Compliance Advocacy	NULL	NULL	NULL	\$ -	\$ -	\$ -	79,926	\$ 49,967	\$ -	\$ 493,444	\$ -	\$ -	\$ -	623,337	\$ 623,337	\$ -	0.0%	\$ 543,411	\$ 543,411			
SCE	SCE-13-SW-008B	Appliance Standards Advocacy	NULL	NULL	NULL	\$ -	\$ -	\$ -	79,925	\$ 41,426	\$ -	\$ 1,073,690	\$ -	\$ -	\$ -	1,195,040	\$ 1,195,040	\$ -	0.0%	\$ 1,115,115	\$ 1,115,115			
SCE	SCE-13-SW-008C	Compliance Improvement	NULL	NULL	NULL	\$ -	\$ -	\$ -	37,269	\$ 38,902	\$ -	\$ 1,030,004	\$ -	\$ -	\$ -	1,106,175	\$ 1,106,175	\$ -	0.0%	\$ 1,068,905	\$ 1,068,905			
SCE	SCE-13-SW-008D	Reach Codes	NULL	NULL	NULL	\$ -	\$ -	\$ -	24,832	\$ 38,964	\$ -	\$ 56,332	\$ -	\$ -	\$ -	120,128	\$ 120,128	\$ -	0.0%	\$ 95,296	\$ 95,296			
SCE	SCE-13-SW-008E	Planning and Coordination	NULL	NULL	NULL	\$ -	\$ -	\$ -	52,978	\$ 48,897	\$ 2,270	\$ 124,637	\$ -	\$ -	\$ -	228,781	\$ 228,781	\$ -	0.0%	\$ 175,804	\$ 175,804			

ATTACHMENT 3: 2013 DEEMED EX ANTE SAVINGS

Attachment 3 to this Resolution is series of summary tables of SCE's 2013 deemed ex ante savings. The summary tables were created from the utility-filed quarterly report that were rolled up into a summary table that retains measure-specific information by summing parameters of the records for each program administrator. Specifically, the records were rolled up based on: program administrator, portfolio subprogram, measure name, type of measure (normal replacement, early retirement, etc.), sector (residential, commercial, etc.), measure full life and replaced equipment remaining life, net-to-gross, installation rate, custom measure realization rate, and a flag indicating if the record is for a deemed savings or custom savings calculation measure.

The summary tables are available at:

ftp://deeresources.com/ESPI/2013_ESPI_ExAnteSavingsIncentiveCalculation_2014-11-12.xlsx

The review targeted the following issues:

1. Removal of all Uncertain Measures from this advice letter filing,
2. Proper application of installation rates,
3. Consideration of market effects, and
4. Proper application of the Hard-to-Reach and Emerging Technology net-to-gross (NTG) values.

Staff classifies the erroneous and inappropriate assignments of NTG into five categories as described below.

- Possible error in NTG assignment: Some measures appear to have incorrect NTG assignments. For example, several non-lighting measures appear to be assigned NTG values that are only applicable for lighting measures for direct install to hard-to-reach customers (0.89 for T8 linear fluorescent and 0.8 for commercial CFLs).

- Use of upstream NTG values: Some NTG assignments appear to be values that can only represent upstream incentive delivery mechanisms (such as the commercial package HVAC), but the program and measure information do not clearly indicate these are upstream programs.
- Use of direct install to hard-to-reach customer default: It appears that all utilities are assigning NTG values from the category of “direct install to hard-to-reach customers” for local government and third-party programs. *This NTG designation is NOT for activities that are either direct install OR to hard-to-reach customer, but instead they are only for direct install activities into hard-to-reach customer facilities/homes.*

Specific criteria were developed by staff to be used in classifying a customer as hard-to-reach. Two criteria are considered sufficient if one of the criteria met is the geographic criteria defined below. There are common, as well as separate, criteria when defining hard-to-reach for residential versus small business customers. The barriers common to both include:

- Those customers who do not have easy access to program information or generally do not participate in energy efficiency programs due to a combination of language, business size, geographic, and lease (split incentive) barriers. These barriers to consider include:
 - Language – Primary language spoken is other than English, and/or
 - Geographic – Businesses or homes in areas other than the United States Office of Management and Budget Combined Statistical Areas of the San Francisco Bay Area, the Greater Los Angeles Area and the Greater Sacramento Area or the Office of Management and Budget metropolitan statistical areas of San Diego County.
- For small business added criteria to the above to consider:
 - Business Size – Less than ten employees and/or classified as Very Small (Customers whose annual electric demand is less than 20kW, or whose annual gas consumption is less than 10,000 therm, or both) , and/or

- Leased or Rented Facilities – Investments in improvements to a facility rented or leased by a participating business customer
- For residential added criteria to the above to consider:
 - Income – Those customers who qualify for the California Alternative Rates for Energy (CARE) or the Family Electric Rate Assistance Program (FERA), and/or
 - Housing Type – Multi-family and Mobile Home Tenants (rent and lease)

In place of the direct install hard-to-reach NTG values (0.89 for T8 linear fluorescent, 0.80 for commercial CFL, and 0.85 for all other technologies) for measure installations at the facilities and homes of customers who do not meet the hard-to-reach minimum criteria, staff expects the use of more appropriate defaults, most commonly 0.55 to 0.70 for residential sectors and 0.60 to 0.70 for commercial, industrial and agricultural sectors.

- Use of Emerging Technology default: It appears that all program administrators are assigning the Emerging Technology default of 0.85 to all LED measures. It is not clear of the basis for this assignment. Since many LED measures appear in third party or local government partnership programs, these may also be assigned the hard-to-reach defaults as described above. As directed in D.12-05-015, program administrators must propose and request approval from staff for the use of the emerging technology default. Additionally, D.12-05-015 requires that, in order for the emerging technology default to be used, the measure inclusion into the portfolio must be directly attributable to the emerging technology program activity. Simply including the emerging technology NTG designation in a workpaper or other document, with no documentation to support the emerging technology program influence claim, is not sufficient.
- Use of NTG value that is not in DEER: Values that appear to be from earlier versions of DEER. For example, a number of upstream CFL claims identified with the 2010-2012 cycle have NTG values of 0.76 assigned instead of the DEER 2011 value of 0.53.

[END OF ATTACHMENT]